

## Fishing Fuel Tax Exemption – An Environmentally Harmful Subsidy

Stockholm University Baltic Sea Centre's reply to the EU's consultation on the [energy taxation directive](#).

### SUMMARY

- The fuel tax exemption for fisheries is a subsidy that is harmful both for the climate, the marine environment, as well as the fisheries sector and communities where the sector is important.
- Currently, the EU tries to mitigate some of the negative impacts of this subsidy on the climate with another subsidy (through the EMFF), which, however, in itself has negative impacts on the environment.
- The fuel subsidy should be addressed with urgency, but through other mechanisms than the EMFF. Whether it is more effective and more efficient to fuel subsidy through a change in the ETD or the ETS depends on the construction of the system.
- Existing instruments should be used more proactively to mitigate the impact of the removal of the subsidies on more sustainable fisheries.

### BACKGROUND

The fuel tax exemption for the fishing sector in the ETD has a significant and negative impact on the marine environment. It lowers the costs of fishing, which increases incentives for overfishing. Leading researchers class fuel tax exemptions as capacity-enhancing.<sup>1</sup> As the Commission's 2009 Green Paper detailed, overcapacity in the fishing fleet is a key driver of overfishing and other problems.<sup>2</sup> Overfishing impacts negatively not only on fishing stocks, but via effects through the food web, physical effects on the seabed etc. also on the marine environment more generally.

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<sup>1</sup> Updated estimates and analysis of global fisheries subsidies. U. Rashid Sumaila et. al. Marine Policy

Volume 109, November 2019. <https://doi.org/10.1016/j.marpol.2019.103695>

<sup>2</sup> COMMISSION OF THE EUROPEAN COMMUNITIES, Brussels, 22.4.2009 COM(2009)163 final GREEN PAPER Reform of the Common Fisheries Policy <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0163:FIN:EN:PDF>

By increasing pressure on fish stocks, overcapacity, reinforced by fuel tax exemptions, reduces profitability in the fishing industry even in the short run, and more in the longer term. As poor profitability in the fishing industry is mainly due to dwindling fish resources and overcapacity, the profitability problem cannot be resolved by lowering the costs of fishing.

Stockholm University Baltic Sea Centre shares the Commission's conclusion that the fuel tax exemption can increase fuel use in fisheries and reduce incentives to invest in more efficient processes. Unfortunately, the EU has tried to mitigate the problem caused by this subsidy by subsidies to invest in more efficient engines through the European Maritime and Fisheries Fund. Using a subsidy to mitigate a problem caused by another subsidy is in general an inefficient use of public resources.

Subsidies for more efficient engines, as the subsidies for fuel use, damage the marine environment: by lowering fishing costs they tend to increase fishing capacity and fishing activity, with all the entailing negative impacts, such as overexploitation of the fish resources. Thus, they are also classed as capacity-enhancing in research literature.<sup>3</sup>

Fishing has in common with agriculture that it contributes to food production. But it has in common with shipping that, by their mobile nature, fishing vessels can sometimes obtain fuel in a country where prices and taxes are lower. Indeed, fishing is exempted from fuel taxes as a subset shipping in Article 14.1(c) in the Energy Tax Directive.

Given that removal of fuel subsidies is beneficial for both the climate, the marine environment, and for the fishing industry itself, the question arises of the best choice of instrument: Removing the exemption in the energy taxation directive (ETD) or including fishing in the emissions trading system (ETS). The result depends on the details, for example, on the level of a minimum energy tax, or if the ETS can target upstream fuel suppliers.

Although either route might impact on more sustainable small-scale coastal fishers, it should be recognized that there are other policy instruments that could be used more proactively to benefit these, if that is a political goal. Examples can be found in the possibility to use sustainability criteria in the national distribution of fishing quotas under Article 17 or national measures within the 12 nautical mile zone under Article 20 of the basic regulation (1380/2013) of the Common Fisheries Policy.

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<sup>3</sup> A 20-year retrospective on the provision of fisheries subsidies in the European Union. Daniel J. Skerritt et. al. ICES Journal of Marine Science (2020). doi:10.1093/icesjms/fsaa142 \_\_\_\_\_